Diversification

Measuring Success Over the Long-Term

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Investment professionals know that trying to beat the index or time the market by predicting the next best performing asset class is futile to achieving long-term consistent performance. Studies have shown that individuals who do try, on average, yield a lower annual return than the market average over the long-term. As you can see from the chart, the S&P 500 has been trending higher since 2010. The average return among other asset classes is very low in 2014 relative to other years. In all years prior to 2010, the average return for all asset classes outperformed the S&P 500.

Diversification, although out of favor in the recent years, has proven to add value over the long-term. Single asset classes will often outperform or underperform significantly over short time periods. With that noted, short-term underperformance of a diversified strategy does not mean diversification has failed. Diversification is a long-term investment strategy and should not be judged by short-term metrics.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	AROR*
Calendar Year Total Returns for Major Asset classes (Annual Compounding)	8.44%	10.25%	55.83%	25.55%	34.00%	32.15%	39.42%	5.24%	78.51%	27.82%	7.84%	18.22%	39.09%	13.52%	10.43%
	3.22%	2.48%	47.38%	20.52%	13.94%	26.34%	11.17%	-0.02%	40.49%	25.69%	3.02%	18.20%	36.34%	13.39%	9.43%
	1.60%	-6.17%	39.05%	20.25%	13.54%	15.77%	6.97%	-36.20%	36.15%	18.88%	2.09%	17.32%	32.04%	6.09%	8.80%
	-2.62%	-15.94%	38.59%	20.01%	7.48%	15.60%	6.19%	-36.55%	31.78%	14.82%	-1.91%	16.04%	22.78%	5.97%	5.28%
	-6.38%	-16.46%	28.34%	10.74%	4.83%	13.75%	5.56%	-41.80%	25.92%	7.75%	-2.75%	15.88%	1.51%	1.04%	5.26%
	-11.85%	-18.37%	4.10%	4.34%	3.34%	4.33%	4.11%	-43.38%	5.93%	6.54%	-12.14%	4.22%	-2.02%	-2.19%	3.85%
	-21.44%	-21.96%	2.04%	3.34%	2.43%	2.52%	1.20%	-53.33%	2.81%	1.42%	-18.42%	1.76%	-2.60%	-4.90%	2.22%
Average	-4.15%	-9.45%	30.76%	14.96%	11.36%	15.78%	10.66%	-29.44%	31.66%	14.70%	-3.18%	13.09%	18.16%	4.70%	6.47%
Median	-2.62%	-15.94%	38.59%	20.01%	7.48%	15.60%	6.19%	-36.55%	31.78%	14.82%	-1.91%	16.04%	22.78%	5.97%	5.28%
Low	-21.44%	-21.96%	2.04%	3.34%	2.43%	2.52%	1.20%	-53.33%	2.81%	1.42%	-18.42%	1.76%	-2.60%	-4.90%	2.22%
High	8.44%	10.25%	55.83%	25.55%	34.00%	32.15%	39.42%	5.24%	78.51%	27.82%	7.84%	18.22%	39.09%	13.52%	10.43%
Range (high - low)	29.89%	32.22%	53.79%	22.21%	31.57%	29.62%	38.22%	58.57%	75.69%	26.40%	26.27%	16.46%	41.70%	18.42%	8.21%
	S&P500		MSCI US Mid Cap 450		MSCI US Small Cap 1750		MSCI EAFE		MSCI Emerging Markets		Barclays US Aggregate		CPI		

AROR - Annualized rate of return earned over all calendar periods shown 2001-2014 (Monthly Compounding)

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